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# DOW THEORY LETTERS, INC.

"The Market as Interpreted under the Dow Theory"

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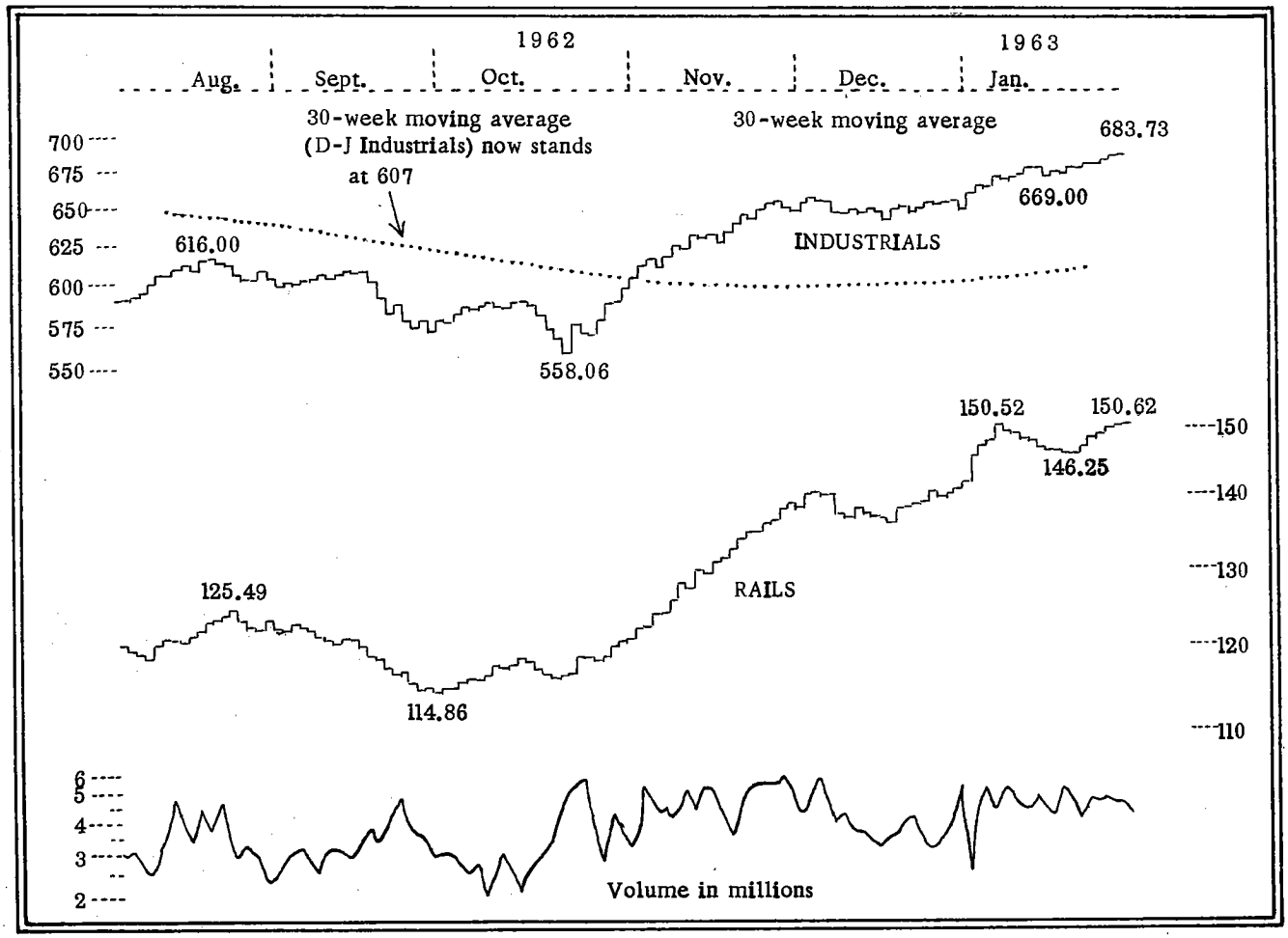
THE MARKET On January 8 (see Letter 207) the Rail Average rose to a post-crash recovery peak of 150.52. This advance took the carriers within less than three points of their 1961 (152.92) high. But on January 9 the Rails turned unexpectedly down. The Rail decline lasted for eight consecutive trading days.

During the period of Rail decline (see chart), Industrials continued their rally, and a series of unconfirmed Industrial peaks were established. A second Rail rally began on January 22. On January 29 Rails finally pushed rather unconvincingly above their 150.52 peak to the accompaniment of diminishing volume. Rails have now confirmed, and although the action was not exactly dynamic, all indicators are (at this writing) "in gear" on the upside.

So far in 1963 we have seen a few "negative" hints (for instance, Rail divergence; periods in which Industrials, Rails and the A-D ratio were out of gear), but no consistent bearish action. A true "down day" is one in which both Averages decline, there are more declining issues than advancing issues, and volume expands with lower prices. Up to the time of this writing, any out-of-gear movements or divergences have not brought in true bearish action as described above. Until this occurs, the trend must be considered up.



RANGES It is a remarkable fact that the Industrial Average has never extended its movements substantially beyond the range which was established in the year 1960. Yet during the few years since 1960 much money has been gained and lost in the stock market.

As seen on the accompanying weekly chart, between January and September, 1960, the Industrial Average fluctuated in a range bordered by 685 on the upside and 600 on the downside. In October, 1960, the 600-685 range was finally violated, whereupon Industrials dropped an additional 33 points (to 566.05 in October, 1960).

A new advance began from the October, 1960 low, and in April, 1961, the upper limit (685.47) of the 1960 range was bettered. Many analysts at that time reasoned as follows: "When the 600-685 range was violated on the downside, the penetration resulted in only a 33 point drop. In other words, no selling pressure developed. Isn't it logical then, that if a new rise can succeed in bettering the upper limits of the 600-685 range, the resultant rise should be substantial?" Unfortunately, things did not work out that way.

In April, 1961, the 1960 peak of 685.47 was hurdled. Industrials pushed higher (see chart), but almost immediately a new "top" began forming. The new range was bordered by 734.91 on the upside and 689 on the downside. For seven months Industrials held within that range.

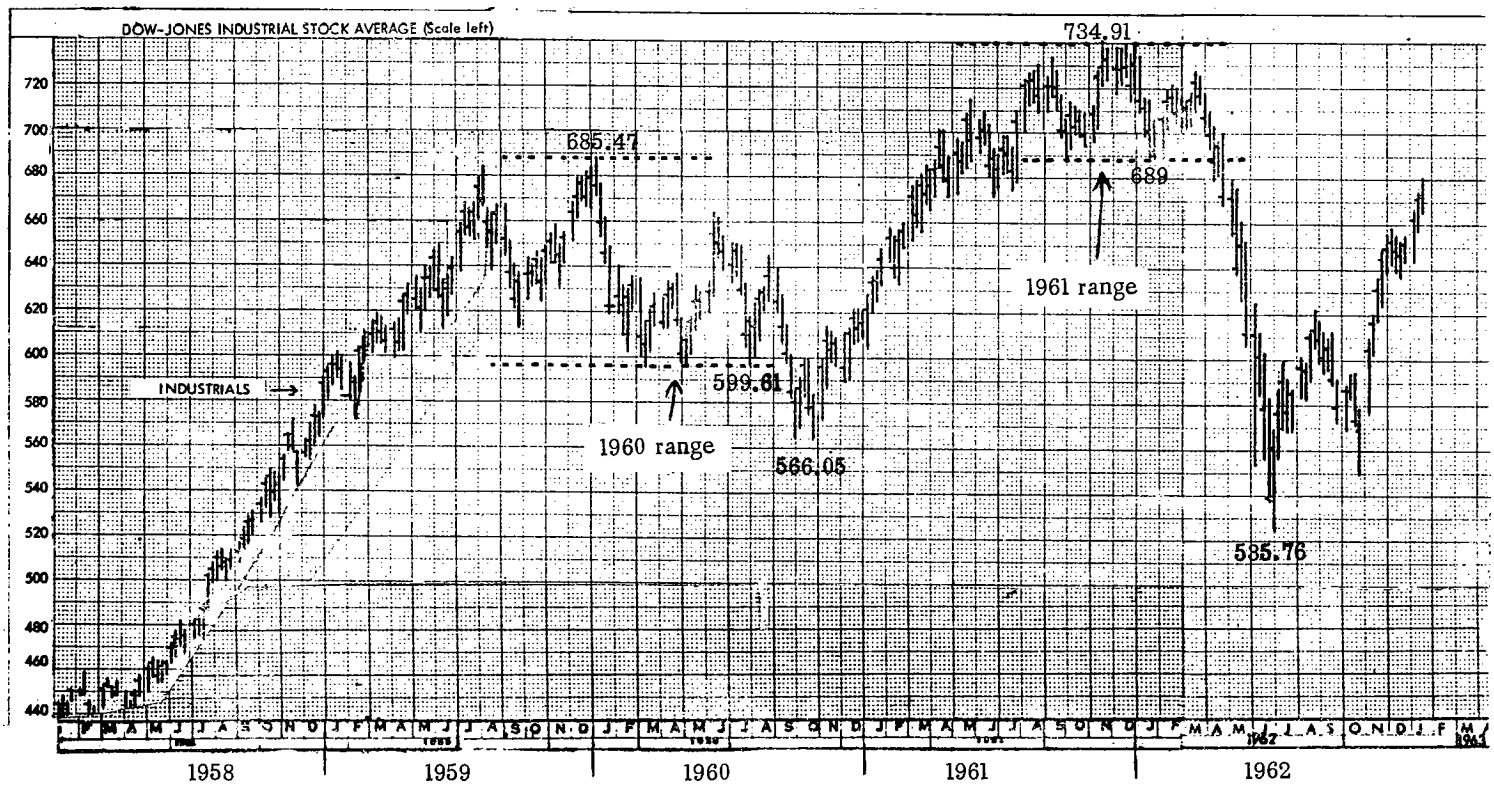
A decline began in 1962, and by April Industrials had plunged below the limits of the 689-734 range. The drop continued until even the 1960 low of 566.05 was violated. The final low of 535.76 was recorded in June, 1962.

From the June, 1962 low, the current rise began. As of this writing, we are at the top of the 1960 range and entering the 1961 range. Taking the broad view, since 1960 there have been three major efforts to extend Industrial movements beyond preceding major high or low points. The October, 1960 low of 566.05 took Industrials only 33 points below the early 1960 range. The December, 1961 high of 734.91 took Industrials only 50 points above the 1960 high of 685.47. The June, 1962 low of 535.76 took Industrials only 31 points below the 1960 low of 566.05.

Now again we are at the level of the 1960 high (i.e., 685.47). That was the level at which the market was preparing to discount "the birth of the Soaring Sixties." It is of interest that the Industrial Average has never been more than 50 points above its 1960 "Soaring Sixties" level, while the majority of stocks are (at this time) still well below their prices of late 1959 and early 1960.

The recent "top" range of 689-734 (the 1961 range) represents an area at which many investors still hold considerable amounts of stock. A number of these people "rode their stocks down" during the 1962 crash, and subsequently these stockholders told themselves that they would gladly sell if fate ever allowed them to break even again.

As we enter the 1961 range a certain portion of these stockholders will find themselves regaining sizable portions of their losses (particularly losses in high-grade equities). These people may then become sellers. Whether the current market can generate



enough "buying power" to absorb all these offerings and then continue higher cannot be known at this time.

However, a gauge of buying power is upside volume (i.e., volume on advancing days). It will take continuing and increasing upside volume to push the market further into the 689 and above zone.

One other phenomenon should be discussed at this time. Following previous crashes, the public has not come in on subsequent post-crash (upward) corrections. Odd-lot studies show that the 1930 rally (following the 1929 crash) terminated in an area of net odd-lot sales. The 1938 rally (following the 1937 crash) ended with net odd-lot selling. Again, the 1947 and the 1948 rises (following the 1946 crash) ended with odd-lot selling. In other words, records show that once the public is badly hurt, they do not become bullish again on the next (or post-crash) advance.

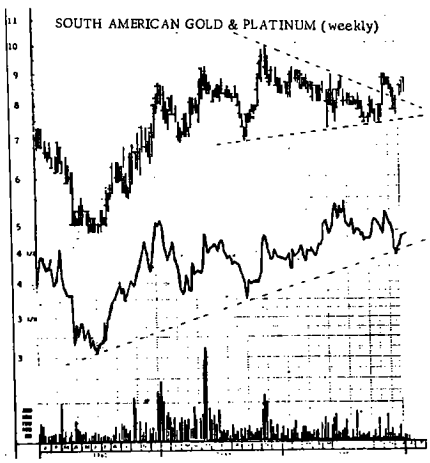
Many analysts are now saying that "this advance will end on a speculative binge, a binge which will find the odd-lotters or public buying wildly at the top." So far, however, odd-lotters are continuing to sell. Should the odd-lot public turn to buying and rampant speculation in this (the post-1962 crash) rise, it will be the first time in history that they will have done so.

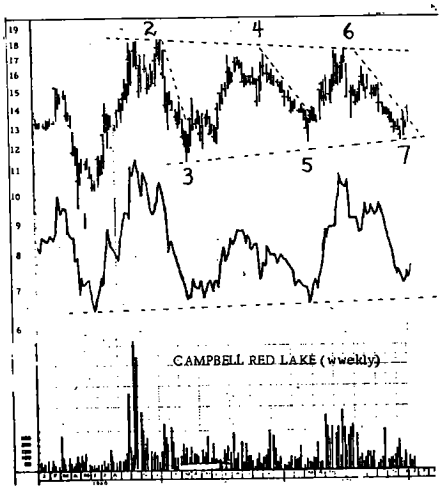
But, as they say on Wall Street, anything can happen. Therefore, if the public does turn bullish and we do see heavy odd-lot buying, we will probably see an extremely speculative market. This has not happened following any other crash, it has not occurred yet on this rise -- but perhaps it will (significant statistic: Barron's Low-Priced Stock Index is still only 184 against a 1959 bull market high of 250).

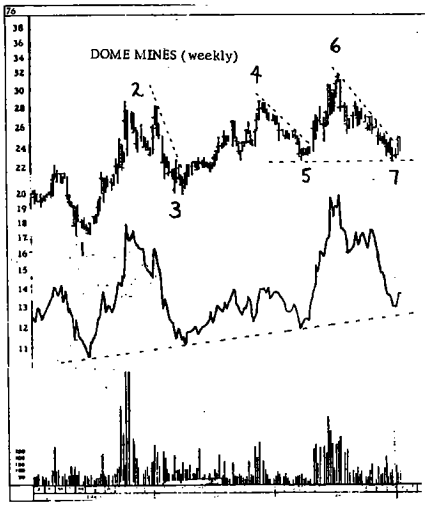
GOLD It has been six months (Letter 184) since I last discussed the gold stocks, and I have had many requests since then for a review of these issues. A number of developments affecting golds have occurred recently, and they are worth noting: (1) U. S. balance of payments continues unfavorable. Last year U. S. imports rose 10% while U. S. exports rose only 2%. This means a further build-up in foreign claims on this country's diminishing gold supply. (2) Treasury Under-Secretary Roosa (in an effort to grapple with reality) has recently admitted that gold losses in early 1963 will probably match the losses recorded during early 1962 (a week ago the Treasury announced the first U. S. Gold loss for 1963 -- $50 million dollars worth). (3) Reserve Board Chairman Martin stated in January: "Any decline in our gold stock large enough to bring its level significantly below the gold certificate reserve requirement of the Federal could raise further questions about maintenance of dollar convertibility. And it could lead to heavy pressures on the U. S. monetary authorities to take strong deflationary action that might be adverse to the economy or, alternatively, to pressure Congress to devalue the dollar."

The following observations (my own) may also be pertinent to the gold story: (1) Despite brave words and despite a fairly prosperous economy, Mr. Martin and the Federal Reserve have continued to keep money in generous supply. Interest rates in this country have been trending lower. Neither of these factors is calculated to help this nation's gold position. (2) At one time Mr. Martin was considered a bulwark of the "sound money" forces in this country. That image has now been tarnished, and there is, at this time, much uncertainty about how the coming deficits will be financed. (Forthcoming deficits will be "monetized" if Mr. Martin gives in to our inflation-minded Administration -- and Mr. Martin could very well give in). (3) The U. S. is unlikely to boost its exports to any important foreign nations. With a forthcoming series of whopping deficits, the U. S. stands to price itself even further out of foreign markets (via inflation). This would mean still lower exports, higher imports, a further call on gold.

It is painfully obvious, however, that the Administration has little or no regard for orthodox economic policy. It would be completely in character for this Administration to remove the 25% gold clause, thereby freeing a large additional portion



of gold (gold which is now legally required as "token" backing for U. S. dollars). U. S. dollars would then have no gold backing, and the entire U. S. gold supply could then be used for claims of foreigners. This process would have the effect of providing a temporary "breathing spell" for this nation (in other words, it would take longer to bring our gold supply down to "panic levels").

As far as the fundamentals are concerned, nobody knows how far the gold situation can deteriorate before real trouble begins; nobody knows at what point foreigners will decide that (monetarily speaking) the U. S. is "all promise and no action"; nobody knows at what point foreigners will grab for their gold. If and when the (gold) "piper is paid", such payment will show in the action of the equities which stand to gain from an increase in the price of gold. For this reason, it is worth examining the technical patterns of the gold stocks at this time.

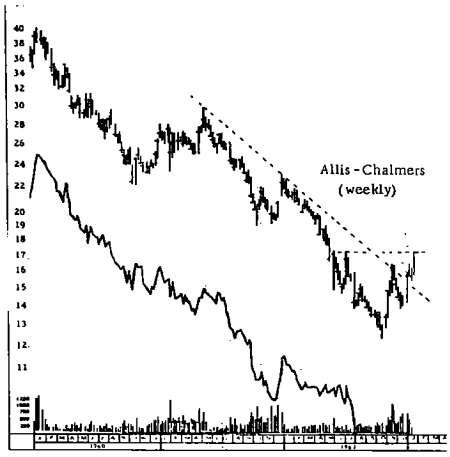
As seen on the weekly charts, Dome and Campbell have traced seven intermediate reversals since 1960. During that period no intermediate decline (1, 3, 5, 7 on chart) has violated a preceding decline low. Furthermore, each time a descending intermediate trendling has been reversed by an advance, Campbell and Dome have rallied to approximately their high range of 1960-62. In the case of Dome the high range has been approximately 30-32, Campbell's high range has been 17-18.

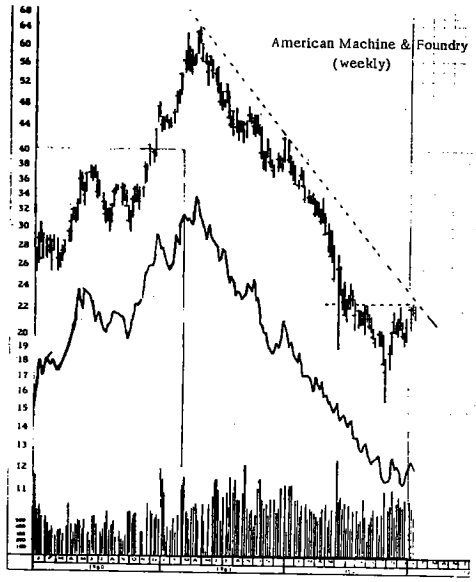
In the past few weeks both of these stocks have penetrated descending trendlines which began in mid-1962. Interest in golds is now rather low. I feel that a purchase in Campbell or Dome represents slight risk with chances of good moves ahead.

A more speculative gold is S. Amer. Gold & Platinum. The stock is now acting well, and it has moved out of a large symmetrical triangle. Speculative purchases in SGP are also justified at this time.

STOCKS Of 350 representative stocks which are tabulated at this office, 276 or 79% are now holding above their 30-week moving average (a rise of 2% from last week). Of the same 350 stocks, 195 or 56% are now above their August, 1962 peak (a rise of 3% from last week).

LATE NOTES: (Written Wednesday, Jan. 30, 1 PM, N. Y. time). Following the unimpressive Rail confirmation which was discussed on page 1, the market today has sold off on (so far) decreasing volume. First points to watch on the downside are 669.00 on Industrials and 146.25 on Rails (see page 1).

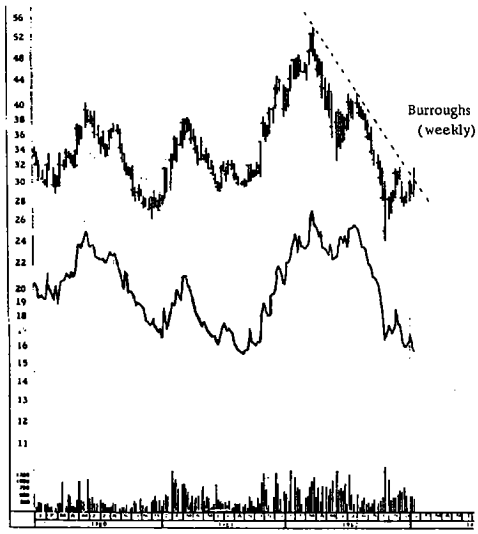



The de Gaulle move which terminated England's chances to enter the Common Market will adversely affect U. S. exports to Europe (and also force England to become more competitive). It will not help the U. S. gold position. Moreover, since France has a "call" on over one billion of U. S. gold, it will be interesting to see how "tough" Mr. Kennedy can get with Mr. de Gaulle. Throughout history, gold has gone to the strong.

It is with some hesitancy that I discuss individual stock patterns. The reason is that all too many stocks have been "breaking out" of patterns, running up for a few days, then dropping back listlessly again. This means that it has been very easy to buy -- and then find oneself "locked" into dull or unprofitable situations.

Three stocks which present potential trading opportunities are shown on this page. All three substantially below their bull market highs, all three have broken long descending trendlines. AH and AMF have formed "head and shoulders" bottoms. Break out or buy point on AH is 17, AMF is 23 1/2. Burroughs would be in the speculative "buy" catagory at 33.




Charts on pages 2, 3, and 4 courtesy of Traders Research, P. O. Box 2466, St. Louis 16, Missouri.

Those interested in speculative Canadian Golds will find excellent Canadian charts published by Traders Research, Ltd., 199 Bay Street, Toronto 1, Ont.